UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
WASHINGTON, D. C.

COTTON ADJUSTMENT UNDER THE A. A. A.

COTTON GROWERS TO DECIDE WHETHER THEY WISH TO CONTINUE ADJUSTMENT OF PRODUCTION TO DEMAND FOR COTTON

Cotton farmers must decide whether they wish to continue to adjust their production to demand, or return to the old system of unrestricted competitive production.

In making this decision, they should remember that the adjustment program is a cooperative enterprise designed to produce the amount of American cotton that the world needs and will take at a fair price. Under the old system, every farmer produced as much cotton as he could. He competed with other farmers both in this country and abroad, and sold his cotton for what it would bring.

Decision should not be based on present conditions alone. There were good years for the cotton farmer under the old method of unrestricted production, but violent fluctuations in price and production more often caused hardship and poverty.

In reaching their conclusion, cotton growers should consider: (*a*) the course and conditions of the cotton industry in the period before adjustment programs were inaugurated; (*b*) changes in the status of the industry and of cotton farmers since the launching of adjustment programs; and (*c*) the known factors that bear upon the future outlook for the industry.

For many years American farmers in the Cotton Belt have depended upon cotton as a cash crop, always good for money in the domestic and foreign markets.

COTTON INDUSTRY ON A DOWNWARD TREND

But at times since the beginning of the present century the cotton industry, under unregulated and uncontrolled competitive production, has revealed declining trends. Farms and farm homes in the eastern part of the Cotton Belt have been going down instead of improving. The total national income from cotton in 1932 was about one-third what it had averaged during the 1920's. The gross annual income per family on cotton farms dropped from $735 in 1928–29 to $232 in 1932–33. Such a reduction in income has led, inevitably, to low living standards, farming practices that exhaust the soil, debt, tax delinquencies, and difficulty in obtaining credit except under unfavorable terms.

American cotton growers, whether they realized it or not, were competing with foreign growers. They were buying manufactured articles in markets where the prices were protected either by tariffs or by a form of business organization which could and did adjust its production to meet only the demand that existed at a price the sellers found attractive.

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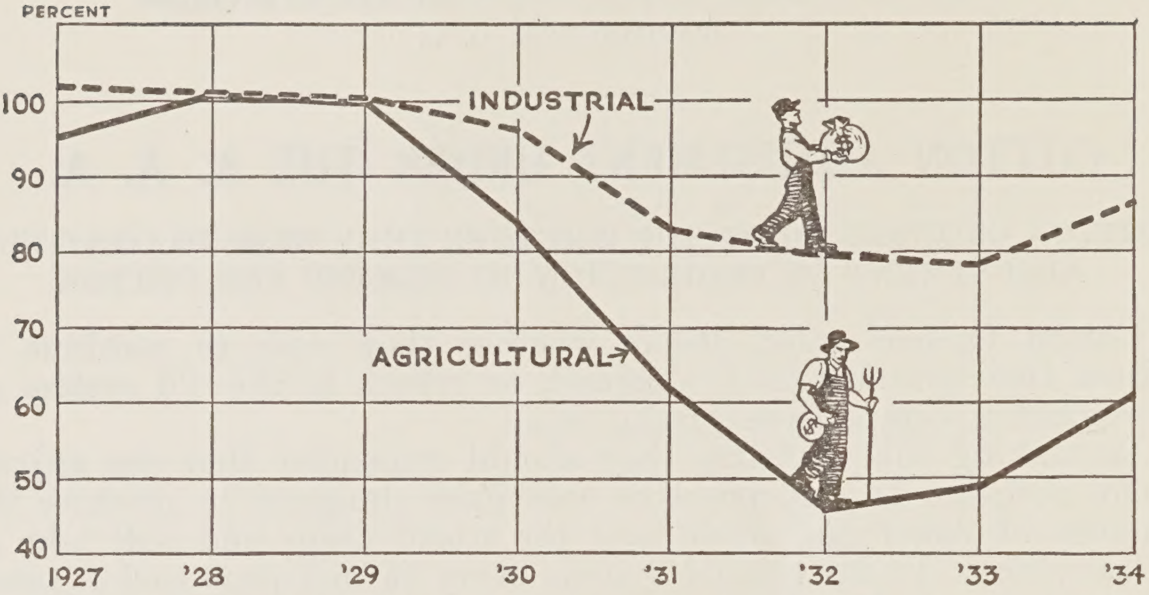
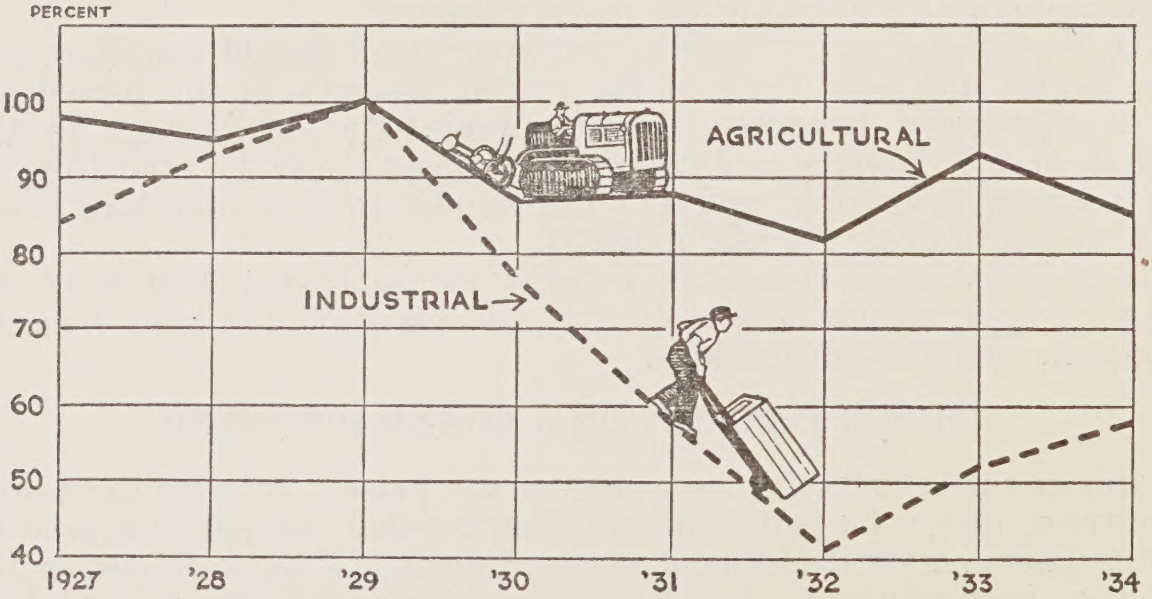
PRICE KEPT UP BY INDUSTRY



The disparity between industrial and agricultural prices is shown above. Agriculture sold in a free market. Industrial prices in 1934 averaged approximately 15 percent below the 1929 level, but agricultural prices which, in 1932, averaged about 55 percent below the 1929 level were still nearly 40 percent below the 1929 level during 1934.

PRODUCTION KEPT UP BY AGRICULTURE



While agriculture continued to produce at a high level, industry curtailed its output. The volume of agricultural products processed in domestic factories remained on a level approximately 15 percent below the 1929 level throughout the depression, but industrial production declined nearly 60 percent below the 1929 level in 1932, and during 1934 averaged more than 40 percent below.

As far back as the 1860's there had been efforts in the South to adjust cotton production to demand by restricting production through State legislation or cooperative action. But always there was a minority unwilling to join in these efforts, and large enough to produce sufficient cotton to overstock markets and force down the price for all. Three generations of southern farm and business leaders have deplored the effects of the one-crop system, urging farmers to grow less cotton and more food and feed they needed for their homes and their farms.

In 1933, when measures providing aid from the Federal Government in adjusting the national output of cotton were enacted, cotton farmers were facing ruin.

THE CHANGE SINCE 1932

By 1934 the gross annual income per family on cotton farms had risen to $400. Total cotton income for the United States had more than doubled since 1932. From a low of 464 million dollars in that year it had risen to 890 million in 1933; was 822 million in the drought year 1934; and is estimated at not less than 860 million for 1935.

These figures include the benefit payments made under the Agricultural Adjustment Act to signers of voluntary adjustment contracts. These payments totaled about 173 million dollars in 1933 and about 116 million in 1934; they will be about 125 million in 1935.

Store prices, while they have risen since 1932, have not advanced so rapidly as cotton prices. One bale of cotton now buys more than twice as much manufactured goods as it did in 1932. It will buy three-fourths as much as it would have bought in 1909–14, before the World War.

As income from cotton has increased, farmers' debts have decreased. The late October report of the Farm Credit Administration shows an average of over 90 percent in repayments in the Columbia, S. C., and Houston, Tex., districts. Tax delinquencies in the South have also diminished as farmers' incomes increased.

Standards of living and standards of farm management among cotton-growing families have shown the rise that might be expected when each bale of cotton has a higher buying power.

Southern farmers have been enabled to stop the practice of mining and exhausting their land in order to extract from every acre the last possible pound of cotton. This process of soil depletion had gone on until some 25 million acres of land in the Southern States, once in cultivated crops, are no longer fit for cultivation, and another 25 million acres are in almost as bad a condition. Since 1933 there have been opportunity and encouragement to use acres retired from cotton production, without loss of income to the farmer, for soil-improving and erosion-preventing crops and for the production of farm and home needs in food and feed.

Women and children formerly working in the cotton fields are now in their homes or at school.

BUSINESS AND INDUSTRY SHARED IMPROVEMENT

Business and industry that depend upon the cotton farmer and his family as customers, have shared in the benefits from his increased income. The greatest increases in department-store sales in the United States, comparing 1933 and 1934, took place in the South. In 1934, the Atlanta, Dallas, and Richmond Federal Reserve districts led the entire country, in the order named. Sales of general merchandise in the South were about one-fourth more in 1934 than in 1933, according to the United States Department of Commerce. The increase during the first 8 months of 1935, compared with the same period in 1934, was even greater.

More than 140.000 more new automobiles were registered in the South in 1934 than in 1932. Postal receipts and life-insurance sales have shown marked increases; real-estate and building activities have

improved; the value of farm real estate has risen; forced sales and foreclosures of farms have decreased while the number of voluntary sales has risen; there has been a sharp decrease in the number of commercial failures.

Bank deposits, net demand and time, in southern towns of less than 15,000 population in eight Cotton Belt States increased more than $100,000,000 from 1933 to 1935.

Waybills of 4 important railroads serving the South show that car-lot shipments of manufactured goods from 16 northeastern industrial States to 10 southeastern agricultural States, increased 38.8 percent in the first 12 months after the beginning of the adjustment programs.

The improvement in the southern farmer's condition has thus been reflected among manufacturers, transportation agencies, and commercial concerns throughout the country.

The move to adjust cotton supply to demand is one, and only one, of the factors that have brought about these changes since 1932. This move has increased the price of cotton and has added cash to the income of the cotton farmer, in the form of benefit payments.

Changes in the national monetary policy, general price increases, refinancing and adjustment of farm indebtedness, additional buying power on the part of urban consumers of farm goods, have all had their effect.

PROBLEMS THAT REMAIN TO BE SOLVED

By no means have all the problems of the cotton industry been solved as yet, although cotton farmers are better off than they were 3 years ago.

The problem of American cotton exports is important to the South and to the Nation. Although exports lately have increased somewhat, a decline had been registered in previous months. Many persons have asked whether adjustment of American cotton production has caused or will cause the permanent loss of a portion of America's foreign cotton market. Many factors other than the adjustment programs must be considered in answering the question.

Both European and Oriental textile mills have always demanded American cotton because the length and strength of its fiber have adapted it particularly well to manufacture.

Since the World War, exports of American cotton have fluctuated from nearly 11 million bales in 1 year to approximately 4¾ million in another year. For the first 15 years after the war, the average was a little more than 7 million bales. Exports in 1932–33 were slightly under 8½ million bales; the next year about 7½ million; in 1934–35 a little under 5 million. During the 1935–36 period a gain has been shown over the figure for the preceding year. From August 1 to November 26, 1935, America exported 474,000 bales more than in the same period in 1934, or 2,297,000 bales as against 1,823,000 bales, a gain of nearly 26 percent.

FACTORS THAT HAVE HINDERED EXPORTS

One of the principal reasons for the decline in exports of American cotton has been the fact that the United States has itself made it difficult for would-be foreign customers to obtain American cotton and other farm products.

After the World War, the United States ceased to be a debtor nation, owing money to European countries and sending them farm goods in payment of those debts. Instead, European countries owed the United States money.

A creditor nation usually finds it best to lower its tariffs and accept goods from its debtors. But the United States again raised its tariffs and thus made it even more difficult for European debtor nations to trade us their goods in exchange for our cotton or other farm products.

For a few years after the war this country made huge foreign loans, not yet repaid, which gave artificial support to export markets for American goods. When the loans stopped, their cessation and the American tariff policy combined to weaken the support for export markets.

Movement of American cotton into export channels has also been hampered by tariff and other trade restrictions set up by foreign countries, either in retaliation against American policies or in a desire for national self-sufficiency. Not only tariffs, but exchange restrictions, import quotas, and embargoes have been established as bars to the foreign purchase of American goods.

Some former foreign customers for American cotton have turned from this source of supply to producing countries with which they have been able to negotiate agreements for exchange of their own products. This move has been one factor in encouraging increased cotton acreage in some of these other producing countries.

Another reason for the decline in exports in 1934 and early 1935 is that during the period from 1930 to 1933, when American cotton was very cheap, foreign countries bought 2⅓ million bales more than they consumed. When prices of American cotton rose these foreign countries began to use up their stored supply of cheap cotton, deferring the buying of more cotton while they waited to see whether the price would come down again. At this period the American Government loan of 12 cents a pound to cotton producers was holding the United States cotton price above its normal relationship with world price. Consequently, the supply of American cotton available to the trade at prices comparable to the world price was limited.

In 1934 foreign countries used 1⅓ million bales more than they bought from this country. The inroads upon the stored supplies of cotton bought at a low price help to account for the increase in shipments from this country during 1935.

FOREIGN COTTON ACREAGE HAS EXPANDED BEFORE

To a certain extent, factors that contributed to the decline in export sales of American cotton have encouraged greater acreage in other cotton-producing countries. However, for more than 50 years cotton production in foreign countries has been expanding, and the rate of expansion increased just before the adoption of the adjustment programs in the United States.

Because of low coffee prices in recent years, cotton has replaced coffee on many plantations in Brazil. Governmental restrictions have been removed from the crop in Egypt. Russia is trying to supply its own cotton needs. Japan is encouraging production in China, and Britain has stimulated cotton growing in Egypt, India, and Uganda.

Cotton production in foreign countries can be and probably will be further expanded. This expansion will, however, become more and more difficult because of natural and economic handicaps. Higher coffee prices, for example, probably would reduce the rate of cotton acreage increases in Brazil. Few other countries are physically able to grow sufficient quantities of cotton with a quality equal to that of American cotton, to meet the demand.

A notable shift in the location of cotton mills is taking place. They are moving from western Europe to the Orient. Japan has taken over about one-third of England's textile trade; India and China now are making most of their cotton cloth instead of importing it. In future, Japan will be reckoned with more and more in selling cotton goods abroad.

EXPORTS POSSIBLE—AT A LOW ENOUGH PRICE

Cotton exports could be increased somewhat by putting the price low enough. This would mean that the southern farmer would have to sell cheaply enough to compete in world markets at any price level, and regardless of the living standards of his foreign competitors.

Otherwise the United States will have to get along with a moderate volume of cotton exports unless this country is willing to adjust its tariff policy and thus make it possible for foreign countries to sell us their products and in turn buy American cotton and other farm products.

Reciprocal trade agreements designed to permit freer interchange of goods between the United States and certain other countries recently have been negotiated or are under consideration. Under the latest of these, Canada agrees, for the life of the pact, to continue the free entry of raw cotton and linters from the United States; Canada also grants concessions of from 10 to 20 percent in its present tariff schedules to American-made textiles so long as there are no changes in the United States tariff on Canadian-made textiles.

COTTON TENANT PROBLEM NOT A NEW ONE

Next to the export problem the situation of tenants on cotton farms has been perhaps the most widely discussed phase of the cotton-adjustment programs.

Cotton-adjustment contracts under the Agricultural Adjustment Act are designed to protect the interests of both tenant and landowner and assure each of his rightful share of the value of the crop, including the increased returns due to the adjustment programs.

The tenant problem in the South is an old and serious problem, not created nor as yet solved by the adjustment programs. Recovery measures that have added to the income of the industry and the regions are not likely to have injured the interest of any large group within the southern cotton industry.

INTEREST OF LABOR IDENTICAL WITH THAT OF FARMER

Farmer-producers, field labor, and employees of the cotton-handling trades have an identical interest in the stabilization of the cotton industry. If cotton production and handling fluctuate because prices advance and decline, labor in the handling trades will

be alternately attracted into employment and squeezed out of it. The permanent interests of labor are the same as those of the 2,200,000 cotton farmers.

The increase in cotton income has directly resulted in increases in other lines of employment outside the cotton industry, but related to it. Railroads use more men, as the volume of shipments of industrial goods into the South increases and operating revenues rise; manufacturing industries require more labor; merchants and townspeople expand business activities and improve their property: States, cities, and towns proceed with needed public works.

PROVISIONS INCLUDED IN 1936–39 CONTRACT

The cotton-adjustment contract for 1936–39, now under consideration by cotton growers, includes the following features:

1. A new total base acreage of 44½ million acres for the United States has been adopted. This base acreage will be allocated by the Division of Cotton among cotton-producing States in proportion to the 1935 base acreage of each State. Each State's quota will be allocated among counties within that State, except for 10 percent of the quota reserved to be used in adjusting quotas of counties and individual producers. Quotas for individual producers will be determined by producers and county committees upon a basis selected by the State cotton board, subject to review by the Division of Cotton.

2. Minimum adjustment required in 1936, by contract signers, will be a reduction to 30 percent below the individual's base acreage. The producer will have the privilege of reducing to a maximum of 45 percent below his base. Adjustments for contract years after 1936 will be determined by the Secretary of Agriculture according to conditions indicated for the year.

3. One type of payment, made in one installment, is provided for. This payment, in 1936, will be at the rate of at least 5 cents per pound on the average production of cotton on the acres withdrawn from production under the contract. The rate of payment for succeeding years will be determined and announced by the Secretary of Agriculture each fall in time to enable cotton farmers to decide whether they wish to continue their contracts.

4. The contract provides for a 4-year program, but permits the signer to terminate the contract at the end of any year by giving notice to the Secretary of Agriculture not later than December 1 of that year. By giving notice to all signers not later than November 15 of any year, the Secretary of Agriculture may suspend all contracts at the end of that year.

5. Each contract signer will be required to plant not less than 50 percent of his permitted acreage. This provision guarantees a stable and adequate production of cotton for domestic needs, and prevents a signer from continuing to draw cotton benefit payments after he has withdrawn from cotton farming.

6. "Adjusted" acres withheld from cotton production may be used to produce food, feed, soil-improving, or erosion-preventing crops, in addition to the acreage of such crops normally devoted to such uses, on each farm. Acreage on a farm covered by a contract, planted to peanuts, rice, or tobacco to be produced for sale, may not

be increased above the acreage of those crops grown on that farm in 1934 or 1935, whichever was larger.

7. When two or more persons are interested in a cotton crop the person who furnishes the land will receive 37.5 percent of the total benefit payment; the person who furnishes work stock and equipment will receive 12.5 per cent of the payment; and the remaining 50 percent of the total payment will be divided among interested persons in the proportion in which they are to share in the cotton or in its proceeds. Thus the share-cropper who furnishes labor only, and is to receive one-half of the cotton, will also receive one-fourth of the total payment due on the land which he cultivates. In normal cases payment will be made directly to the persons entitled to share in the crop or its proceeds.

Suggested References

The following publications may be secured from the sources below as long as supplies are available:

"The Processing Tax", G-41 (revised). Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C. (Free.)

"Facing the Facts in the Agricultural Situation", G-42 (revised). Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C. (Free.)

"The Cotton Program Carries On." Address by Henry A. Wallace, April 13, 1935; Press Service, Office of Information, United States Department of Agriculture, Washington, D. C. (Free.)

"Credits and Debits of the Cotton Program." Address by Chester C. Davis, August 13, 1935; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C. (Free.)

"Cotton" (Current Information Statement No. 2), by Cully A. Cobb; Regional Contact Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C. (Free.)

"What Countries Shall Supply the World With Its Cotton?", G-49. Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C. (Free.)

"World Cotton Markets", G-43. Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C. (Free.)

"How Much Cotton Should America Produce in 1936?" Commodity Information Series, Cotton Leaflet No. 6, Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C. (Free.)

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